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Derivatives Review Questionnaire - FISCU		
ELIGIBILITY		
<i>For FISCUs, the eligibility requirements in the final rule (Part 703) are not required, however we look at Eligibility in the context of the overall CAMEL code and Financial capacity to support a Derivatives program.</i>		
	Yes/No	Comments
1. What is the credit union's CAMEL rating as of the most recent examination or supervisory contact? If the FISCU is rated 4 or 5, is the use of derivatives a contributing or deterring factor in the less than satisfactory rating?		
2. What is the credit union's "M" component rating as of the contact date? If the "M" component rating is 3 or below, is it the result of weaknesses in asset/liability management practices?		
3. Was the credit union's asset size at least \$250 million as of the most recent call report cycle just ended and if not, does the overall asset size indicate they may not have the financial capacity to support a derivatives program?		
4. Is the credit union's permissibility to utilize derivatives derived via specific approval granted by the SSA? If so, what terms and conditions were included in the agreement?		
5. Is this the 1st supervision review since the approval to use Derivatives?		
PRODUCTS AND CHARACTERISTICS		
<i>A FISCU is not bound by the FCU requirements for product permissibility in Section 703.102, however the FISCU needs to demonstrate the need and economic benefit of using these products and characteristic as part of their hedging program.</i>		
	Yes/No	Comments
1. List the products and characteristics used and whether within the permissibility of the SSA approval, if applicable. List below:		
a.		
b.		
c.		
d.		
e.		
f.		
g.		
h. Is the credit union's usage of financial derivatives strictly limited to interest rate risk mitigation, or are derivatives utilized for risk assumption (trading/speculation)?		
DERIVATIVES AUTHORITY AND LIMITS		

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A FISCU should demonstrate compliance with appropriate valuation loss and concentration limits as part of sound derivatives utilization and management process.

	Yes/No	Comments
1. Is the FISCU operating under a valuation loss or other forms of risk limits related to its derivative transactions? Are the limits understood by the credit union's Board of Directors and sufficiently addressed in policies?		
2. Are the credit union's limits being monitored inclusive of derivative transactions is the experience of management and staff involved in the derivatives management process adequate and qualified?		
3. In calculating the derivative position loss and notional (WARMN) measures and compared to the FCU limit guidelines, as a metric for financial capacity is the FISCU within guidelines, and if over, what is the strategy and exit strategies, if needed.		
4. Has the credit union violated the internal operating limits during the period since the last examination?		
5. If a violation of the limits did occur at any time, does the credit union have a process or policy in place to suspend derivatives activity and provide the Board of Directors with a corrective action plan?		

COUNTERPARTY, COLLATERAL AND MARGINING

The credit union should have sufficient and effective contractual agreements in place to execute derivative transactions in the marketplace that serve to mitigate operational and counterparty credit risks. Those contractual agreements should comply with exchange, clearing house and/or ISDA standards and operating rules relative to margining requirements and eligible collateral to be transferred and received.

	Yes/No	Comments
1. Does the credit union have signed legal contracts with approved counterparties to conduct derivative activities?		
2. Does the credit union limit its approved counterparties to registered swap dealers, introducing brokers and/or futures commission merchants? If not, are collateral margining requirements sufficient to address the elevated counterparty risks of not using CFTC registered entities?		
3. If the credit union is engaging in non-cleared derivatives transactions, is an ISDA protocol standard bilateral agreement in place that includes a master servicing agreement and credit support annex?		
4. For non-cleared transactions are margining requirements identified in the credit support annex and are daily minimum margin transfer amounts reasonable and consistently applied?		
5. Does the credit union have systems in place to effectively manage collateral and margining requirements?		
6. Are collateral requirements accurately posted, tracked and valued at fair value and can the reconciled values be supported with a counterparty statement?		

Derivatives Review Questionnaire - FISCO		
7. Is there an effective process in place to resolve collateral valuation disputes that may arise between the credit union and its counterparty?		
8. Does the credit union have an effective process in place to reconcile and confirm that collateral calls are effectively executed and recorded on its own books and reconciled to the counterparty?		
9. Does the Net Counterparty Credit Exposure schedule in the 5300 Call report agree to the credit union records and the counterparty statement for the last reporting period?		
REPORTING REQUIREMENTS		
<i>Management reporting is a critical tool for communication in a credit union. Reviewing the reports and determine if consistent with the overall balance sheet interest rate risk mitigation strategy.</i>		
	Yes/No	Comments
1. Does the credit union deliver a comprehensive derivatives report to the Board of Directors? If so, how often?		
2. Are senior executive officers and the ALCO provided a comprehensive derivatives report on at least a monthly basis?		
3. Is the comprehensive reporting to the Board of Directors, ALCO and Senior Management sufficient to provide the officials with a sufficient and timely understanding of the credit union's outstanding positions, fair values, and counterparty exposures?		
a. Does the reporting clearly identify any violations of policy required limits, permissibilities, or exposure positions?		
b. Does the reporting provide a sufficient itemization of the credit union's individual derivative positions, aggregate current fair values? Are the current positions clearly compared to the credit union's approved fair value and notional limits as part of the reporting?		
c. Are the results of net economic value analysis reported both with and without derivatives positions included?		
d. Does the reporting clearly and accurately provide an assessment of the derivatives transactions effectiveness in mitigating interest rate risk?		
e. If derivatives are used for income producing activities, does reporting clearly identify the risk/return tradeoff of the activities?		
f. If the credit union has adopted hedge accounting designation under GAAP, does the reporting clearly and accurately provide an evaluation of the effectiveness of		
4. Has the credit union complied with the Call Reporting tables and instructions for Derivatives activities?		
DERIVATIVES POLICIES		
<i>Is the credit union's derivatives policy written and does it clearly define the governance, control and measurement aspects of the credit union's derivatives strategies?</i>		
	Yes/No	Comments
1. Does the credit union have an independent written Derivatives Policy?		

Derivatives Review Questionnaire - FISCO		
2. Does the policy clearly identify and address managerial oversight and responsibilities over the derivatives program?		
3. Does the policy clearly identify and describe the scope of the credit union's derivatives activities and current status of Regulatory permissibilities and approvals?		
4. Does the policy identify approved counterparties utilized by the credit union?		
5. Does the policy specify timely reporting requirements for the board, senior management, and/or other designated committees (e. g., Financial Management, Executive)?		
6. Does the policy clearly identify the manner in which and models that will be utilized in valuing derivatives positions and monitoring market risk?		
7. Does the policy clearly identify risk management processes in place to monitor and manage credit, liquidity, settlement and operations risks?		
8. Does the policy clearly identify the manner in which legal risks associated with counterparty and collateral agreements will be controlled?		
9. Does the policy clearly identify the basis of accounting that will be utilized for its derivative hedging program, and how compliance with GAAP will be maintained?		
10. Does the policy identify the fair value loss limits and/or concentration of notional outstanding that the credit union will operate under? What are the limits?		
11. Does the policy clearly identify single and aggregate counterparty exposure limits?		
12. Does the policy identify processes for determining, monitoring, and complying with collateral management, margining and threshold limits required by CFTC Rules for exchange traded and cleared transaction and counterparty agreement standards where over the counter transactions are entered into?		
13. Does the policy address separation of duties and internal controls governing the derivatives acquisition, valuation, collateral management, and reporting processes?		
DERIVATIVES OVERSIGHT AND MANAGEMENT		
<i>Is it clear that the board of directors' and executive management provide effective oversight of the IRR management program inclusive of derivative transaction.</i>		
	Yes/No	Comments
Board of Directors Oversight		
Is the board of directors' oversight of the IRR management program effective?		
1. Does the Board receive annual training sufficient to allow a general understanding of the derivatives and the knowledge required to provide strategic oversight of the credit union's derivatives program?		
2. Has the board ensured that management executes an effective derivatives management program?		

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3. Has the board periodically assessed the reliability of measurement methods used to measure the credit union's derivatives exposures?		
Management Responsibilities		
Is management's implementation of the IRR measurement and derivatives hedging program effective?		
1. Do senior executive officers sufficiently understand, approve and provide oversight of derivatives activities?		
2. Has senior management ensured that qualified staff are in place that are qualified to understand and oversee asset/liability management and the role of derivatives in the credit union's ALM strategies?		
3. Are staff qualified to understand and oversee appropriate accounting and financial reporting for derivatives transactions in accordance with GAAP?		
4. Does staff possess the necessary practical experience and skill to undertake and oversee derivatives trade execution in accordance with CFTC and/or ISDA agreement requirements?		
5. Does staff possess the necessary practical experience and skill to evaluate and manage counterparty, collateral and margining risks associated with the credit union's derivatives activities?		
6. Is senior management effective in integrating collateral management and cash flow requirements of derivatives transactions into the credit union's overall Liquidity Management Program?		
7. Has management developed and maintained adequate risk measurement systems over interest rate risk measurement in general, and the use of derivatives in mitigating core interest rate risks?		
8. Have they established an appropriate system of internal controls, a process and responsibility framework and schematic of the derivatives management process?		
9. Do clear lines of authority and responsibility exist for mitigating IRR through the use of derivatives, and is adequate separation of duties in place between asset/liability management, accounting and financial reporting, derivatives execution and oversight and collateral, counterparty and margining management?		
DERIVATIVES VALUATION AND IRR MEASUREMENT		
<i>Review and determine the quality of the derivatives valuation and IRR measurement processes to determine if adequate and appropriate for the credit union.</i>		
	Yes/No	Comments
1. What models are utilized by the credit union to confirm and substantiate pricing of derivatives positions at time of execution?		
2. Are the models implemented properly utilizing industry available interest rate and volatility data?		
3. Where derivatives are used to manage IRR, are the credit union's modeling practices adequately and reliably assessing hedging correlations both pre- and post execution of derivatives acquisition?		
4. Are total balance sheet models reliably assessing interest rate risk position both with and without derivatives hedges considered?		

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5. What NEV and Income Simulation model platforms are utilized by the credit union?		
6. Have all core IRR management processes and procedures reviewed been deemed "adequate" under the IRRQ D AIRES questionnaire?		
7. Does the credit union effectively utilize stress and sensitivity testing as part of its overall IRR measurement and mitigation program? Are the stress and sensitivity tests applied relevant and are the results of the testing utilized by senior management and ALCO to identify appropriate mitigation strategies relative to IRR and liquidity risk exposures?		
8. Are the hedging strategies implemented by management effective in mitigating interest rate and market risks?		
9. Credit union provides projections of income over longer periods of time. (e.g. five year ahead income simulations)		
10. Credit union uses the forward interest rate curve to estimate its cost of funds over the next five years.		
11. Credit union report NEV and Income Simulations with and without derivatives.		
12. Credit union includes both parallel and non-parallel changes in rates over the maturity spectrum (both flattening and steepening of the yield curve).		
INTERNAL CONTROLS AND GOVERNANCE		
<i>Does the credit union adequately separate the risk taking functions from the risk measurement and trade execution functions and periodically assess the overall program and compliance with industry best practices?</i>		
Yes/No	Comments	
1. Does the credit union clearly identify and document the circumstances that lead to the decision to hedge and/or take an income producing position in derivatives, the strategies that will be employed, and evaluate the economic effectiveness of proposed hedging strategies prior to trade execution?		
2. Is the credit union's internal audit and compliance function independent of the function and operational areas of the credit union and senior management?		
3. Does internal audit have a consistent and effective audit and compliance program set forth and completed over the financial risk management functions of the credit union?		
4. Does the credit union receive an annual opinion audit by an external Certified Public Accounting firm that supports accounting hedge designations elected by the credit union?		
5. Is a process and responsibility framework that outlines the roles of staff and key control points of the derivatives and hedging decision making, valuation, execution, monitoring, and collateral management processes maintained and consistently updated as needed?		
6. Does the credit union have an effective process in place to ensure that the legal risks associated with counterparty contracts and compliance with CFTC rules is well understood, managed and mitigated?		

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7. Is an effective vendor management program in place at the credit union to ensure that all material vendor relationships associated with the financial risk management and derivatives program processes in place.		
8. Are periodic vendor management updates provided to the ALCO and Board by the credit union's audit and/or compliance areas?		
9. If the credit union is relying on external service providers to provide interest rate risk measurement modeling, is an effective process in place to ensure that actual Asset/Liability Risk Management and Decision making is conducted internally by the credit union, and that effective model risk governance over the service provider is conducted internally by the credit union?		
10. Does the credit union have an effective process for evaluating the strength and operational readiness of derivatives counterparty relationships?		
LIQUIDITY MANAGEMENT PROGRAM		
<i>The objective of the review for Liquidity is critical for derivatives as cash payments need to be forecasted and supported over the life of the transactions as well as having eligible collateral available at all times for margin calls.</i>		
	Yes/No	Comments
1. Does the credit union maintain sufficient liquid asset reserves to fund on balance sheet operations and projected net cash payments for derivative transactions?		
2. Is the credit union forecasting short and long-term liquidity needs and providing that analysis to the ALCO and Board on a monthly basis?		
3. Are liquidity forecasts reliable and sufficiently stress tested to identify any areas where contingent liquidity needs may arise?		
4. Is there a process in place to test the adequacy of liquid asset positions in US Treasury, Agency, and Agency MBS securities to ensure that sufficient to maintain collateral commitments under a variety of plausible stress tested scenarios against the aggregated fair value loss position of the derivatives book?		
5. Does the credit union maintain, and have they tested access to, a Federal liquidity backstop (i.e. Fed or CLF)?		
4. Is there a process in place to test the adequacy of liquid asset positions in Cash, US Treasuries, Agency, and Agency MBS securities to ensure that sufficient to maintain collateral commitments under a variety of plausible stress tested scenarios against the aggregated fair value loss position of the derivatives book?		
5. Does the credit union maintain, and have they tested access to, a Federal liquidity backstop (i.e. Fed or CLF)?		